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The Annual Report of Maritime Telegraph & Telephone Company, Limited, for 1975

1975 Annual Report

of the Directors to the Shareholders of Maritime Telegraph & Telephone Company, Limited

Incorporated under the laws of the Province of Nova Scotia

Head Office 1520 Hollis Street
P.O. Box 880, Halifax, Nova Scotia
Canada B3J 2W3
Telephone — (902) 424-4541

STOCK TRANSFER OFFICES

Maritime Telegraph and Telephone Company, Limited, 1520 Hollis Street, Halifax, Nova Scotia (common shares 7% preferred shares 7.10% preferred shares 8.60% preferred shares and 9.40% preferred shares)

Canada Permanent Trust Company, 600 Dorchester Blvd. West, Montreal 101, Quebec (common shares 7.10% preferred shares, 8.60% preferred shares and 9.40% preferred shares)

Canada Permanent Trust Company, 20 Eglinton Ave. W. Toronto 1, Ontario (common shares 7.10% preferred shares, 8.60% preferred shares, and 9.40% preferred shares)

Canada Permanent Trust Company, 315 Eighth Avenue, S.W., Calgary, Alberta (7.10% preferred shares, 8.60 preferred shares and 9.40% preferred shares)

Canada Permanent Trust Company, 1778 Scarth Street, Regina, Saskatchewan (7.10% preferred shares, 8.60% preferred shares and 9.40% preferred shares)

Canada Permanent Trust Company, 701 West Georgia Street, Vancouver, British Columbia (7.10% preferred shares, 8.60% preferred shares and 9.40% preferred shares)

Canada Permanent Trust Company, 433 Portage Avenue, Winnipeg, Manitoba (7.10% preferred shares, 8.60% preferred shares and 9.40% preferred shares)

STOCK REGISTRAR

The Halifax, Montreal and Toronto Offices of Canada Permanent Trust Company are registrars of common shares of the capital stock of the Company.

The Halifax, Montreal, Toronto, Calgary, Regina, Vancouver and Winnipeg offices of Canada Permanent Trust Company are registrars of 7.10% preferred shares 8.60% preferred shares and 9.40% preferred shares of the capital stock of the Company.

Common Shares, 7.10%, 8.60% and 9.40% preferred shares listed

Montreal Stock Exchange
Toronto Stock Exchange

Valuation Day Prices
(December 22, 1971)

Common Shares	*$22.13*
7% Preferred Shares	*$ 9.63*

The 1975 Annual Report is a summary of the operations of the Company in its 66th year of serving Nova Scotia. It is prepared for those who have invested in our Company, for those who are interested in the Company's performance and for our employees.

NOTICE OF ANNUAL MEETING

The annual general meeting of the shareholders of Maritime Telegraph and Telephone Company, Limited will be held at the Head Office of the Company, 1520 Hollis Street, Halifax, N.S. on Tuesday, the 23rd day of March, 1976 at twelve o'clock noon.

From the President

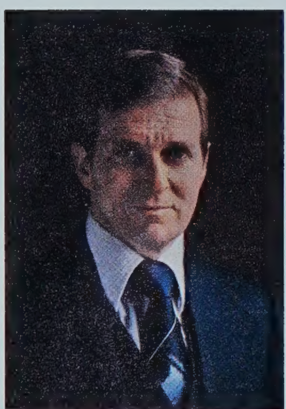
Few years in your Company's history lend themselves so well to the theme *Challenge and Response* as did the past year. Not so long ago, an earlier MT&T annual report discussed the dynamic changes likely to occur in the nineteen seventies. Changes have, indeed, taken place. More and more, people are insisting that society's institutions serve new needs, answer more demands. In turn, these institutions are being judged on how they respond to these needs.

For the telecommunications industry in 1975 — and in particular for MT&T — there was a challenging array of these demands. Our responses to these challenges took on a quality, and perhaps an urgency, which set the year apart from the recent past. These challenges and our responses to them are highlighted in the ensuing pages of this Report.

There was the problem of continued and unrelenting pressures on the costs of doing business and rendering good service; operating expenses, including materials and labor, rose an overall 23%. Early in the year it was clear these costs would run ahead of increased rates for our services, rates which had been approved in late 1974. Our skills in ensuring continued improvements in efficiency and productivity were severely tested. In the face of inflationary pressures, however, it was soon evident that further rate increases would be needed. These were approved for implementation December 1, 1975. By year end, the level of satisfactory earnings had been partially restored — return on average invested capital increased to 8.95%, on average common equity to 9.54%, and earnings per average common share rose eight per cent to $1.89.

There was, as well, the challenge created by a downturn in housing starts and — in the early autumn — a nine week work stoppage. Previously forecasted growth trends for additional residence telephones had to be revised, and

overall growth in the number of telephones was reduced from an anticipated 6% to 3.6%. Despite this drop in growth, the program of continued expansion and modernization of telecommunications services in dozens of areas — rural and urban — was continued in order to meet the need for more automated service and for improved quality of service. And there remained, too, a high demand by the Province's businesses and major institutions for increasingly sophisticated, speedier and more efficient telecommunications. The expanded overall network continued to service this escalated demand. Apart from new data transmission packages, new computer terminal devices and related components, the level of long distance calling surged upward. By year end, just under 30 million long distance calls had been handled, an increase of 11.9%, only marginally below forecast. Nearly a billion phone calls of all kinds had been handled, a level never before attained.



Finally, we confronted the challenge common to many enterprises in a time of economic uncertainty, the search for predictability in financial planning. We were required to raise increasingly large amounts of capital, not only to meet construction program commitments but to meet these in the face of rapidly inflated costs. At the same time, this needed capital was raised at historically high rates, and our fixed costs of capital rose as earlier borrowings (at lower rates) were retired. The generally improved revenues which resulted from the general tariff increase brought two results: first, the new tariff charges would produce forecasted revenues which would yield an anticipated return on average common equity of about 13% in 1976, a level likely to be sufficient to enable the Company to meet its needs in the capital markets; second, these new earnings levels would remain below the ceilings set forth in prices and income control guidelines introduced some weeks after the September hearings at which the rates had been proposed.

President &
Chief Executive Officer

February 12, 1976

“The year 1975 gave us challenging situations in full measure . . .”

In any business organization — and MT&T, by virtually any measure among the largest investor-owned businesses in Atlantic Canada, is no exception — continued success hinges on two factors.

First, you must recognize and define the challenges ahead the enterprise faces. Second, you must meet and surmount those challenges.

“The year 1975 gave us challenging situations in full measure,” states D. Nelson Braid, appointed Vice-President (Operations) on March 31. “Even as the year began the impact of what seemed to be runaway inflation, coupled with a slow-down in many sectors of the economy, brought a severe re-appraisal of our operational targets.”

That was just the start. In the early months of the year “it was clear that housing starts — apartments, homes, condominiums — were to be well below past trends. Yet many businesses, large and small, were not yet showing the same downturn,” he states.

“Thus on the one hand we knew that the net gains in telephone installations which had hovered around the 30,000 mark the previous two years would not be repeated. On the other, it was clear that business demand for a wide range of telecommunications services was still there. And long distance volumes in the main were being sustained very close to historical growth levels.”

Come what may, then, it was clear there could be no let up in

D. N. Braid, Vice-President (Operations) 2nd from right, with department heads (l to r): M. J. McGrath, General Marketing Manager, H. C. Kingsbury, General Traffic Manager, M. W. Wallace, General Commercial Manager, and G. D. Robb, General Plant Manager.

provisioning of most MT&T services. Strikes of suppliers, of employees, even of postal workers would all have their effect. And an economic slump could well mean people would travel less, but phone long distance just as much, perhaps more.

Growth

As forecast, the growth in the number of telephones added to MT&T's network fell below the previous years' levels and dropped further as a result of the nine-week work stoppage which resulted in a backlog of 5,000 installation orders. Installation crews completed 172,008 orders, connecting and disconnecting phones, changing and upgrading service. At year end, the result was a gain of 13,618 or nearly one new phone for every 13 orders worked. Total business and residence phones in service rose to 392,441, an increase of 3.6% for the year, up 79.6% over ten years ago.

Despite the drop in growth, other upward trends persisted. In the ten-year period just ended, the proportion of family homes and apartments in the Province with phone service rose from 79.4% to 97.7%. Single-line service for residences increased from 97,023 to 179,717 with 80.1% of all home services now private lines.

Residence extension services in the same period rose from 14.8% to 27.2% of main residence lines. Combining both residence main phones and extension phones with all business phones, the number of telephones for every 100 persons in Nova Scotia was 47.5 at year end. Ten years ago this stood at 29.8. Nationally, the overall average is 55.

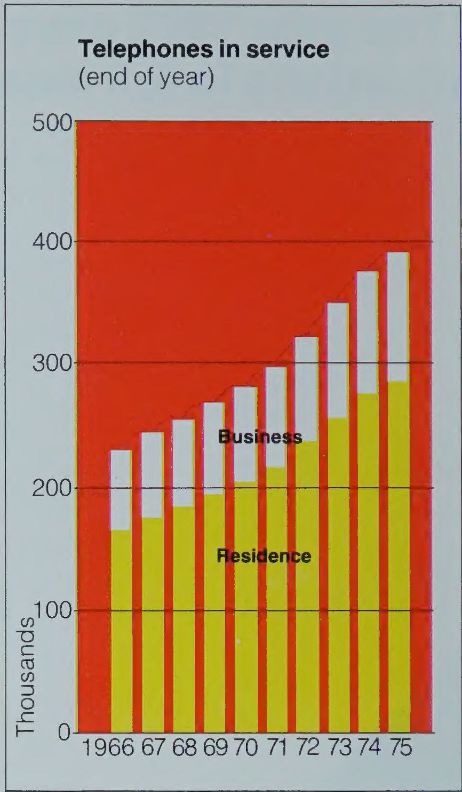
Calling volumes

Long distance and local calling volumes for the year were not seriously affected by the economic downturn. Nor, indeed, did long distance volumes feel the full impact of the nine week work stoppage of telephone operators and craftsmen in the August-to-October period.

Total number of all calls carried by the network in 1975 was 955,512,000, up 12% from a year ago and about double that of a decade ago.

Included in this total were 29.9 million long distance messages, an increase of 11.9% over the year before and, again, double that of ten years ago, despite the major advances in Extended Area Service plans which, in effect, converted a large volume of short-range long distance calls to "local calls". Significantly, the ratio of long distance calls handled by the Direct Distance Dialing network continued to increase; in 1975, 66% of all calls were dialed directly by customers, up from 59% a year ago.

This total was bolstered by the number of exchanges throughout the Province where DDD was provided for the first time. In all, 11 communities where automated dial equipment was introduced also received DDD. Including these phones, as well as those added in other communities, a total of 14,249 telephones were connected to the DDD network during the year.



Improved Services

The year 1975 was the ninth year of the ten-year growth, expansion and modernization program. Modernization phase of this program alone includes advances in six basic areas of improved services, and in 1975 a total of 24 exchanges had benefitted from these improvements.

The program meant conversion to dial telephone service and the construction of 11 "switching centres" — including the new Lake Echo centre — to house up-to-date dial equipment. In all, 3,188 additional telephones were added to the dial system in this way.

Prior to conversion of Port Hood, Cape Breton, to all-dial and Direct Distance Dial service, J. J. MacDonald, and W. G. Marshe, central office foremen, go over testing results.

Concurrently, the telephones in these areas were linked directly to the DDD network, which is fast approaching the 200,000,000 mark throughout Canada, the United States, Mexico and a growing number of off-shore localities. In Nova Scotia, phones with DDD capability rose to 85.6% of the total number of telephones in service.

Third major improvement in the six-point program brought enlargement of "base rate" areas to 15 communities. Thus for some 2,500 customers in these areas the basic calling zones, resulting in mileage charges to outlying areas being reduced or eliminated, were enlarged in 1975 as population groups shifted and grew.

The fourth part of the program saw the provision of "free long distance" calling between seven pairs of neighboring communities. Termed Extended Area Services, these plans involved major investments to link centres with related and growing communities of interest, and eliminate long distance charges between them.

Another major feature of the modernization program was the assumption of service responsibilities of seven rural, independent "connecting" telephone companies services. This brought to 101 the number so absorbed in the past nine years; twenty-eight will be similarly assumed in 1976.

Finally, the provision of improved service to customers in rural areas saw the installation of 478 miles of additional buried cable, as the average number of parties sharing rural lines fell to 5.4 at year end. By the end of 1976, the goal is to reduce this to an average of four per line.

Marketing Of New Services

A range of new service offerings, and improvements in the quality of services, were introduced during the year.

In the computer communications field, the Dataroute network which transmits data in almost error-free "digital" form was enlarged. An innovative new "packet-switched" data transmission service called Datapac was announced. And several new computer communications terminals were introduced.

Considerable expansion took place in mobile communications, with additional effort in sales and the opening of several additional communities for Mobile Telephone Service.

The Phone Store concept continued to be expanded, with the new Truro location becoming the fourth in operation.

Finally, the groundwork was laid for next year's introduction of a totally new computer-controller switchboard system for businesses — the first will be installed in the new Maritime Centre, and will provide service for all of the businesses in this building from one compact switching cabinet.

"... our biggest challenge was to plan similar growth capacities for the next several years."

One of MT&T's newest microwave towers — this one part of a major Eastern Shore telecommunications expansion and improvement project — against a setting sun near Melrose.

For Ivan E. H. Duvar, appointed Vice-President (Planning) on March 31, 1975, one of the major challenges for the year was carrying through implementation of plans for what among Company engineering staff has been termed "the great leap forward".

Simply put, this means that the extraordinary growth in service in the years from 1972 through to 1974 had required MT&T to use equipment capacities in the network unexpectedly in advance of plan. "This capacity is something that is built in when we plan the provision of services in the most commercial manner" he states. "By the start of 1975, however, our biggest challenge was to plan similar growth capacities for the next several years. So this has taken top priority, and as matters stand we will have the 'balance' back to normal by 1977."

The balance he refers to is in fact the trade-off between the cost of providing now for growth capacities for longer periods, or building this part of the growth capability later; in short, finding the optimum economic interval for facility extensions in the face or forcasted future demands and costs.

The task was doubly difficult in the face of inflated costs, economic slowdown and thus increasingly complex and difficult trend forecasting. And to complicate matters further, much planning went out the window for more than a two-month period as strikes among certain groups of employees not only impinged on operations, but precluded a variety of major projects from moving on schedule.

Major Projects

Among these was the biggest single integrated project in MT&T's history. This consisted of major service improvement projects throughout the Annapolis Valley. These included a new microwave system from Digby to Kentville, and on to Halifax; dial conversion

system from Digby to Kentville, and on to Halifax; dial conversion project work for completion in 1976, bringing the last exchanges in the Valley area into the dial network; and erection of a new "stored program" (Sp-1) electronic-memory switching centre in Kentville, to provide both long-distance calling for the entire area, and local calling in Kentville.

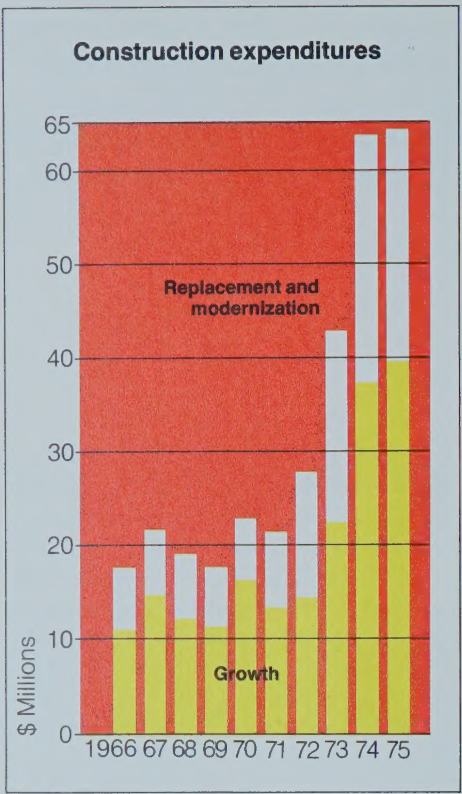
All told, this investment adds up to close to $12 million. The Kentville SP-1 centre itself is now due to go into service in May of 1976. And with it, by the end of the year, MT&T's entire territory will then be 100% DDD, one of the six goals of the Company's six-point, ten-year modernization program.

Elsewhere, other major projects were either completed or brought close to scheduled service dates.

In the growth area of the Halifax-Dartmouth region several major projects were undertaken.

In Spryfield in suburban Halifax, characterized by rapid housing and shopping-centre development, a

I. E. H. Duvar, Vice-President (Planning) 2nd from left, with department heads (l to r): S. E. Jefferson, Executive Assistant — Trans Canada, D. H. Hills, General Business Information Systems Manager, and G. H. Geldert, Chief Engineer.



third SP-1 ''switching centre'' was being installed. This is similar in technology to that introduced in nearby Rockingham. The Spryfield SP-1 is a programmable machine, capable of extraordinary flexibility as customer usage grows and changes, with a host of built-in features including remote monitoring of call volumes, troubles and calling patterns. All told, the centre will cost $4.5 million and will serve some 11,400 residence and business phones in the area.

Also, in the Dartmouth area, growth in service required establishment of the new Lake Echo exchange; a new and larger switching centre in the Chezzetcook exchange; and a major extension to the Woodlawn exchange and investment required for those projects alone totalled $3.7 million.

The continuing and rapid growth of long distance traffic required a major enlargement for the North Street long distance centre in Halifax. This serves as the central point for both Nova Scotia and Prince Edward Island. The new facilities cost approximately $2.5 million. The present ''4A'' long distance switching machine was installed in the new five-storey complex in 1971. The 1975 addition will provide the capability of virtually doubling the complex's capacity. It has been engineered for ''dual train operation''; thus an incoming mix of ''through'' and terminating long distance traffic is sorted out and moved along either of two routes through the machine's doubled capacity.

At the far end of the province, a new microwave system was completed between Cape Breton and Newfoundland. This $874,000 project, which was placed in service in December, provides for growth in long distance circuits to Newfoundland to meet the rapid increase of calling volumes to and from that Province. The new microwave system provides for a major improvement in this leg of the coast-to-coast long distance network operated by MT&T in consortium with member companies of the Trans Canada Telephone System. Besides additional facilities, the new system ensures improved quality of transmission and provides for an alternate traffic route between the two provinces to aid in the uninterrupted flow of telecommunications.

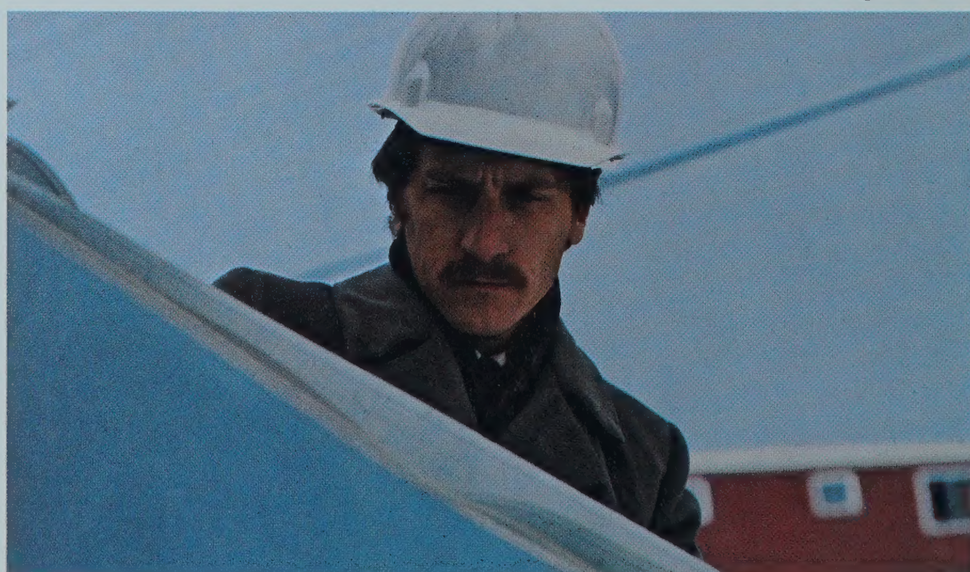
Modernization, Growth

Overall, the Company's construction program expenditures for 1975 totalled $64.5 million — highest in MT&T's history — of which $40 million was to provide additional facilities to meet the growth in the number of telephones in the network.

A further $15.5 million was used to carry forward the six-point modernization program, referred to in detail earlier. This has as its goals the achievement of all-dial, all-DDD by the end of 1976; the assumption of services of most of the remaining rural connecting telephone companies; additional base rate enlargements; and reduction of the average number of parties sharing rural lines to four, or fewer.

The remaining $9 million of the construction program was to provide for customer mobility, changes in the network, and facility replacement requirements.

Colin Latham, Supervising Engineer (Outside Plant Facilities Design), whose responsibilities include key interface with major customer construction projects in provision of Building Industry Communications Consulting Service.



"The challenge . . . was to work toward a settlement satisfactory to all sides."

Looking back, one can reflect a variety of reasons as to just why there was a 62-day strike and work stoppage of some 1,820 craftsmen and operators last year.

It started the afternoon of Friday, August 8, within hours of their union — Local 1030, International Brotherhood of Electrical Workers — securing the legal right to strike. From Halifax the stoppage spread throughout the Province. By midnight the last of the craftsmen, and with them the operators (members of the same local, though a separate bargaining unit) had set up pickets outside all toll centres and service centres.

Nine weeks later, and after 20 days of "the most prolonged and

P. G. Henderson, General Organization Development Manager (left) with J. R. Gale, General Information Manager.

intense'' negotiations that N.S. Labor Minister Walter Fitzgerald said anyone could remember, both groups were back to work. Even then, the vote among employees to return to their jobs had been by slim majorities.

Philip G. Henderson, appointed General Organization Development Manager on March 31, recalls: ''Opinions vary as to just why feelings were so intense. Certainly money was the key issue in both settlements, and of course inflation had eroded everyone's purchasing ability over the previous two or three years.

''But there were those who argued, as well, that contract settlements in other areas had had a 'whiplash' effect, an effect strong enough to mobilize very strong emotions. Result was that on more than one occasion resumption of bargaining was thwarted as feelings remained intense.

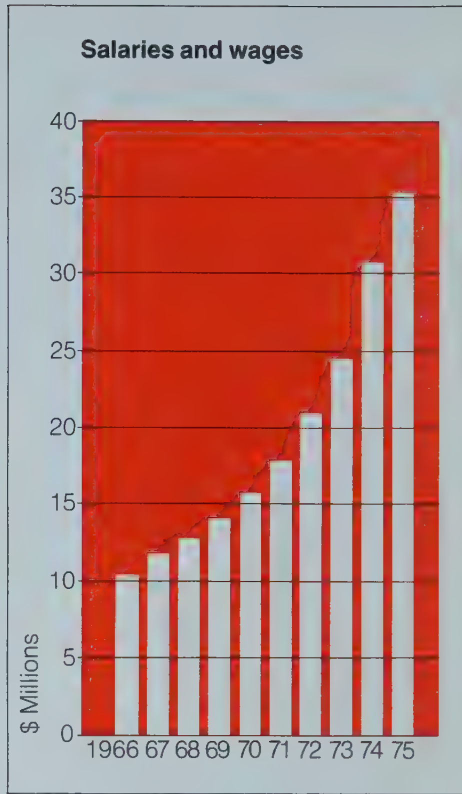
''But the challenge we faced in those tense days was to work toward a settlement satisfactory to all sides — and simply knowing contracts would eventually be concluded guided us in our 'public' position.''

John R. Gale, General Information Manager, adds: ''That 'public' position was in many ways vital. First, of course, MT&T's publics include our own people, those on strike and the hundreds of men and women from supervisory ranks deployed through nine long distance centres, and in as many service centres, maintaining telephone service.

''In the Company's public utterances, all personnel were restrained. Only facts were reported — as best as we could gather them. Opinions and comments were curbed. No question the temptation was great on both sides to elaborate and comment on events — that this was in large part resisted will be, in the long run, of benefit.''

For both men, the long-run goals of MT&T in the areas of employee development and public understanding of the company bear an interrelationship.

On the one hand, there were 3,526 employees at the end of 1975 — nearly 60 more than a year before



— and their ranks continue to grow. Their wages and salaries amounted to $35.3 million, an increase of 14.9% over 1974. In addition, benefit and welfare costs (about 15.9% of the totals) were $5.6 million.

These benefits included $3.95 million paid in by the Company to the non-contributory pension fund: $872,000 for sickness, accident, group insurance benefits, and supplementary hospital insurance; $383,000 to the Canada Pension Plan; and $399,000 to Unemployment Insurance.

The skills and know-how of these men and women are constantly being upgraded. The result is that the number of telephones served per employee has risen from 93.4 ten years ago to 111.3 in 1975, and the corporate investment per employee has risen from $49,565 to $107,447 in the same decade.

Scene at Kentville, showing Operator and Craftsmen strikers picketing long distance centre facilities.

On the other hand, MT&T remains the biggest business employer in Nova Scotia, and this "labor intensive" role will not change in the foreseeable future. At the same time, while the Company is seen by its customers as a regulated monopoly with extraordinary capital investments throughout the Province — and providing a standard of service second to none — intensive research has shown that what is not so apparent is its role as a provider of good jobs and excellent working benefits in virtually every community.

In 1976, the Company's response will be to demonstrate whereever and whenever feasible this contribution in the creation of jobs to the economy of Nova Scotia. Skilled and dedicated men and women, in all ranks and hundreds of communities, are indeed "your neighbors serving you".

New decor, modern consoles are features of enlarged Directory Assistance facilities at Halifax's North Street long distance centre.

Summing up

Other challenges loomed large

Some of the challenges the Company faced in 1975 — as you will have seen from the preceeding pages of this report — were not readily apparent at the outset of the year.

Others, however, loomed large. Not the least was the recognition that the continued escalation of costs of materials, labor and money showed no signs of abatement. In late 1974 revenues had increased as a result of general rate increases amounting to some 10.3% of overall revenues. But the Company's costs of doing business in 1975 continued to soar upward — at a pace considerably in excess of increased rates introduced the year before.

Concurrently, revenues from some services fell below earlier forecasts — including revenues from fewer than forecasted additional telephone installations.

Accordingly in mid-1975 the Company began preparations for hearings in which additional increases would be proposed. These hearings, before the Board of Commissioners of Public Utilities for Nova Scotia, were conducted in early September. As a result, new rates were approved for implementation December 1st. It was anticipated that these rates would increase 1976 revenues approximately 14.3% beyond normally projected increases.

These new rates were in addition to proposed charges for two additions to the General Tariff; one for provision for a late-payment

penalty for overdue accounts, details of which are being developed for re-submission to the Board of Commissioners. The second was for imposition of a 25 cent charge for calls to Directory Assistance, for requests for numbers already appearing in directories. Exemptions include the first three such calls a month; calls from phones of handicapped persons; and emergency, pay phone, hotel, motel, hospital and mobile calls. Directory Assistance charging was approved for introduction February 1st, 1976.

Organization Changes

A series of senior organization changes took place in the early months of 1975.

Alex H. McKinnon, Vice-President (Planning) retired on Jan. 31. Mr. McKinnon, a graduate in Engineering of St. Francis Xavier University and Nova Scotia Technical College, joined the Company in 1934. After long experience in both Plant and Engineering Departments, he was appointed Chief Engineer in 1964. Since 1974 he had been on special assignment to develop and define corporate policies and objectives; these included plans to provide the framework for operation objectives in key planning areas.

Donald W. Myers, Executive Vice-President, a graduate in Commerce of St. Mary's University, retired on March 31. Mr. Myers joined MT&T in 1934 as a surveyor's helper, and served in the Commercial Department in both New Glasgow and Sydney before becoming General Commercial Manager in 1958. In 1962 he was made Executive Assistant, in 1963 Vice-President (Finance), and in 1966 Vice-President and General Manager. He was appointed Executive Vice-President in 1969. He was elected to the Board of Directors in 1963, and remains a member of the Board.

A. Gordon Archibald, Chairman of the Board and President, retired as President on March 31, 1975 and served as Chairman of the Board and Chief Executive Officer of the Company until December 31, 1975 when he retired as Chief Executive Officer. Mr. Archibald, a graduate of Dalhousie University in Commerce, joined the Company in 1934, serving in the Annapolis Valley, Cape Breton and Amherst before becoming General Commercial Supervisor in 1940. He was appointed General Commercial Manager in 1943, General Plant Manager in 1956 and General Manager in 1958. On February 18, 1959 he was elected to the Board of Directors and appointed Vice-President and General Manager. In 1963 he was appointed President succeeding J. E. Richardson who resigned to become President of the British Columbia Telephone Company. He was elected Chairman of the Board and President in 1968. Mr. Archibald will continue as Chairman of the Board.

Struan Robertson, Vice-President (Operations) was appointed President and Chief Operating Officer on March 31, 1975. Mr. Robertson joined the Company as General Counsel in 1956 and was appointed Secretary and General Counsel in 1959. In 1966 Mr. Robertson was appointed Vice-President (Finance). In 1969 he was appointed Vice-President (Operations) and on January 24, 1974 he was elected to the Board of Directors. On December 31, 1975 he was appointed President and Chief Executive Officer succeeding Mr. Archibald.

D. Nelson Braid, General Organization Development Manager, was appointed Vice-President (Operations) on March 31. Mr. Braid joined the Company in 1947 and in 1964 was appointed Outside Plant Engineering and Construction Manager. In 1968 he was appointed General Traffic Manager and became General Organization Development Manager in 1973.

Ivan E. H. Duvar, Chief Engineer, was appointed Vice-President (Planning) on March 31. A native of Prince Edward Island, he graduated in Engineering from Nova Scotia Technical College and joined MT&T's Engineering Department in 1966 after experience in the telecommunications industry. In 1969 he was appointed Business Information Systems Manager and became Chief Engineer in 1973.

Edward J. Hicks, Secretary-Treasurer, was appointed Vice-President (Finance) on March 31. Mr. Hicks joined MT&T in 1957 and was Supervisor - Budgets and Forecasts from 1964 to 1966, when he was appointed General Accountant and Statistician. He was appointed Treasurer in 1974.

Philip G. Henderson, General Business Information Systems Manager, was appointed General Organization Development Manager March 31. Mr. Henderson joined MT&T in 1963 as Electrical Engineer, and in 1966 was transferred to the Plant Extension Engineering group. In 1968 he was appointed Supervisor of Facility Planning, and a year later Supervisor of Planning in the Business Information System Department. He was made Systems Development Manager in 1972, and Business Information Systems Manager in 1973.

David H. Hills, General Business Information Systems Supervisor, was appointed General Business Information Systems Manager March 31. Mr. Hills joined MT&T in 1969 as General Supervisor, Internal Audit and Security, and was transferred to the Business Information Systems Department in 1974.

Struan Robertson, President and Chief Executive Officer (left) with A. Gordon Archibald, Chairman of the Board; in foreground is model of Maritime Centre, home of Company's new Head Office, while construction crane at work can be seen in background.

Glen H. Geldert, Equipment Engineering Manager, was appointed Chief Engineer on March 31. Mr. Geldert, a native of Lunenburg, N.S., is a graduate in Engineering of Nova Scotia Technical College and joined MT&T in 1963 following experience in the telecommunications equipment manufacturing industry. He was made Outside Plant Engineer in 1969 and was appointed Equipment Engineering Manager in 1973.

Donald B. Quinn, General Accountant and Statistician, was appointed Secretary-Treasurer on March 31. Mr Quinn joined the Company in 1946 and became Treasury Supervisor in 1954. He subsquently served as Assistant Secretary, Internal Auditor and Disbursements Accounting Manager and was appointed General Accountant and Statistician in 1969.

To those who have retired after years of service to the Company, and to those whose careers are continuing, the members of the Board record their thanks and appreciation.

For the Board of Directors

Struan Robertson

President &
Chief Executive Officer

February 12, 1976

The Financial Report

in words

"Like any business, the continuing pressures of inflation have had their effect on MT&T," states Edward J. Hicks, appointed Vice-President (Finance) on March 31. "But more than most businesses, the Company's very nature of being capital intensive means that it has been particularly vulnerable to these pressures. Thus the right measures, at the right time, to offset this vulnerability became the key financial challenge of 1975."

These inflationary pressures were dramatically shown as, on the one hand, operating revenues during the year rose 23.5% over 1974, while on the other hand operating expenses increased 23.0%. Exemplifying the capital intensive nature of the Company, total interest charges increased 37.8% over 1974, and there was a 118.9% increase in the cost of preferred equity. "Both increases reflected the higher cost of fixed commitments resulting from the need to raise increasingly large sums of capital to meet service demands, and to secure these funds at historically high rates," he states.

As the warning signs of continuing inflation became more evident, the Company made an application — for the second year in a row — to increase its tariff rates. New rates were approved by the Board of Commissioners of Public Utilities for Nova Scotia, effective December 1. By year end the spiralling costs had been met with higher revenues, and, at the same time, the rate of return on average common equity of 9.5% was an improvement over the 1974 return of 8.9%, and this return on shareholders' investment — the risk capital of the Company — was, although modest, restored to a healthy trend.

E. J. Hicks, Vice-President (Finance), 2nd from left, with department heads (l to r): P. G. Henderson, General Organization Development Manager, D. S. Inkpen, Comptroller, and D. B. Quinn, Secretary-Treasurer.

Thus overall the year 1975 showed a much needed improvement in earnings over the prior year. The strong performance in revenues towards the end of the year contributed significantly to the increase in earnings per average common share (before extraordinary item) from $1.72 in 1974 to $1.89 this year. It is anticipated that this growth trend will continue into 1976, thereby restoring a reasonable earnings record including a much needed growth in earnings. This strong earnings record will assist the Company to meet the challenges of the future in terms of raising the required capital, both equity and debt, to meet service demands.

Operating Revenues

A number of factors contributed to the growth in revenues of 23.5%. In local service revenues, the major item was the impact of the revised tariff approved effective October 1, 1974. In toll revenues, an 11.9% increase in total calling over 1974, combined with a revision to the out-of-Province toll rate schedules effective August 1, 1974, contributed greatly to the overall improvement in revenues during the year. This revenue improvement was experienced despite the fact that the growth in telephones in service in 1975 was slowed because of the economic slowdown and the nine-week employee work stoppage. The work stoppage also had a somewhat adverse effect on the number of toll messages which were processed, with a resulting loss in revenue.

Operating Expenses and Financing Requirements

The continuing pressures of inflation on costs of equipment, materials, wages, benefits, and other items was the main cause of the dramatic increase of 23% in 1975 operating expenses. During the year, the Company had record high expenditures for plant and equipment of $64.5 million. In order to finance these expenditures, the Company was required to raise a significant amount of capital from external sources. During the year, the Company issued $25.0 million, 11% Series "V" First Mortgage Bonds, $17.5 million, 9.4% Cumulative Redeemable Preferred Shares and continued to make use of short term borrowings as required. In addition to the need to finance expenditures on plant and equipment, the Company was also required to pay off maturing debt. During the year, the $3 million, 3³/₄% Series "I" bonds matured and $8.6 million of the $10 million, 9¹/₄% Series "Q" bonds were repaid under the terms and conditions of that issue.

1976 Financing

The anticipated improvement in earnings through 1976 will be accompanied by a requirement for further substantial amounts of external financing. During 1976 it is expected that between $35 and $40 million will have to be raised, by way of debt and equity, in order for the Company to finance the further required expenditures for plant and equipment and to pay off the $2 million, Series "E" bonds which will mature on July 1, 1976.

The Statements

The financial statements in this report are presented on a fully consolidated basis as well as on a corporate basis. The unconsolidated statements, or corporate statements, are on an "equity in net assets of subsidiary" basis. The notes to the financial statements are common to both sets of financial statements. The various statistics quoted in this summary are extracted from the corporate results.

in brief

	1975	1974
Construction Program Expenditures (millions)	**$ 64.5**	$ 63.9
Telephone Plant per Telephone, December 31	**$ 965**	$ 854
Telephones in Service, December 31	**392,441**	378,823
Earnings per Common Share	**$ 1.89**	$ 1.75
Dividends paid per Common Share	**$ 1.30**	$ 1.30
Average Common Shares (thousands)	**4,110**	4,024
Return on Average Invested Capital	**8.9%**	8.4%
Return on Average Common Equity	**9.5%**	8.9%
Equity per Common Share, December 31	**$ 19.98**	$ 19.66
Long-term Debt % Total Invested Capital, December 31	**55.6%**	55.3%
Salaries and Wages (millions)	**$ 35.3**	$ 30.7
Employees, December 31	**3,526**	3,466

AUDITORS' REPORT

To the Shareholders of
Maritime Telegraph and Telephone Company, Limited:

We have examined the consolidated financial position statement of Maritime Telegraph and Telephone Company, Limited and its subsidiary companies as at December 31, 1975 and the consolidated income, retained earnings and changes in financial position statements for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the companies as at December 31, 1975 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Our examination included the unconsolidated financial position statement of Maritime Telegraph and Telephone Company, Limited as at December 31, 1975 and the unconsolidated income, retained earnings and changes in financial position statements for the year then ended and in our opinion these unconsolidated financial statements present fairly the unconsolidated financial position of the company as at December 31, 1975 and the unconsolidated results of its operations and the changes in its financial position for the year then ended on a basis consistent with that of the preceding year.

Halifax, Canada
January 26, 1976

Clarkson, Gordon & Co.
Chartered Accountants

NOTES TO FINANCIAL STATEMENTS

(1) Summary of significant accounting policies —

(a) Accounting for subsidiaries:
The Company owns 52.4% of the common shares of The Island Telephone Company Limited and 100% of the shares of Maritime Computers Limited. The consolidated financial statements include the accounts of these subsidiaries.

The unconsolidated statements include the accounts of these subsidiaries on an "equity in net assets" basis.

(b) Accounting for telephone plant:
Telephone plant is carried at cost.

Depreciation is charged on a straight-line basis using component rates for classes of plant, determined by a continuing program of engineering studies, as approved from time to time by the Board of Commissioners of Public Utilities for the Province of Nova Scotia. Rates, similarily calculated for The Island Telephone Company Limited, are approved by the Public Utilities Commission of the Province of Prince Edward Island. These rates provide for depreciating the assets over their estimated useful service lives and resulted in a consolidated composite rate for 1975 of 5.9% (1974, 5.5%). Comparative unconsolidated composite rate for 1975 is 5.8% (1974, 5.5%).

Materials inventory consists of items which will be used in the construction program.

(c) Income taxes:
Deferred tax accounting has been followed with respect to all timing differences.

(2) Other income — the consolidated statements include interest charged construction of $2,088,000 (1974, $1,257,000), less other income charges.

The unconsolidated statements include the Company's portion of the net subsidiaries' income of $359,000 (1974, $203,000), interest charged construction of $1,858,000 (1974, $1,167,000), less other income charges.

(3) Other interest — includes amortization of long term debt expenses amounting to $142,000 (1974, $125,000) on a consolidated basis and $131,000 (1974, $116,000) on an unconsolidated basis.

(4) The extraordinary income item in 1974, of $111,000 ($225,000 before income tax) consists of interest received as a result of income tax re-assessments for the years 1969 and 1970. These re-assessments resulted from claiming for income tax purposes certain additional expenditures in excess of those included in operating expenses for the respective years.

(5) Other telephone plant — land, telephone plant under construction and property held for future telephone use.

(6) Other investments — principally in Telesat Canada. Total investment in these shares on a consolidated basis is $798,000, and on an unconsolidated basis is $738,000.

CONSOLIDATED INCOME STATEMENT

For the Year Ended December 31

	Thousands of Dollars	
	1975	1974
	$	$
OPERATING REVENUES		
Local service	45,428	37,365
Long distance service	52,468	41,512
Other	3,670	2,791
Uncollectible	*694*	*476*
	100,872	81,192
OPERATING EXPENSES		
Maintenance	15,817	13,560
Depreciation (Note 1 (b))	20,275	16,266
Traffic	10,233	7,812
Commercial and marketing	5,516	4,816
Administrative	6,999	5,984
Pensions and other employee benefits	4,118	2,758
Other	3,938	2,905
Taxes other than income taxes	2,635	2,270
	69,531	56,371
	31,341	24,821
Other income (Note 2)	2,124	1,264
	33,465	26,085
INTEREST		
Bond interest	11,338	8,197
Other (Note 3)	1,833	1,231
	13,171	9,428
	20,294	16,657
Income taxes	8,980	7,898
INCOME BEFORE MINORITY INTEREST AND EXTRAORDINARY ITEM	11,314	8,759
MINORITY INTEREST	746	574
INCOME BEFORE EXTRAORDINARY ITEM	10,568	8,185
Extraordinary item (Note 4)	—	111
NET INCOME FOR YEAR	10,568	8,296
Earnings per common share:		
— before extraordinary item	1.89	1.72
— after extraordinary item	1.89	1.75

CONSOLIDATED RETAINED EARNINGS STATEMENT

For the Year Ended December 31

	Thousands of Dollars	
	1975	1974
	$	$
RETAINED EARNINGS, beginning of year	24,310	22,783
ADDITIONS:		
Net income for year	10,568	8,296
Other (Note 9)	78	48
	10,646	8,344
DEDUCTIONS:		
Preferred dividends	2,789	1,274
Common dividends	5,343	5,231
Commission and expenses of issuing preferred stock	516	312
	8,648	6,817
RETAINED EARNINGS, end of year	26,308	24,310

D. S. Inkpen
Comptroller

CONSOLIDATED F

ASSETS

	Thousands of
	1975
	$
TELEPHONE PLANT (Note 1 (b))	
Depreciable telephone plant in service	377,447
Other telephone plant (Note 5)	34,886
	412,333
Less accumulated depreciation	92,906
	319,427
Materials inventory	6,642
	326,069
INVESTMENTS	
Other investments (Note 6)	907
CURRENT ASSETS	
Cash	4,064
Accounts receivable	18,863
Income taxes receivable	—
Prepayments	1,408
	24,335
DEFERRED CHARGES	
Unamortized long-term debt expenses	2,270
Other deferred charges	991
	3,261
	354,572

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The accompanying note

NANCIAL POSITION STATEMENT
\s at December 31

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1974
$
28,862
23,297
52,159
81,015
71,144
6,633
77,777
906
869
13,185
2,179
1,083
17,316
1,681
818
2,499
98,498

LIABILITIES AND SHAREHOLDERS' EQUITY

	Thousands of Dollars	
	1975	1974
	$	$
SHAREHOLDERS' EQUITY		
Common stock (Note 7)	41,973	41,101
Premium on common stock (Note 8)	15,588	15,375
Retained earnings	26,308	24,310
Total common equity	83,869	80,786
Preferred stock (Note 7)	36,308	20,106
	120,177	100,892
MINORITY INTEREST IN SUBSIDIARY COMPANIES		
Preference shares	5,050	5,050
Common equity	3,210	3,080
	8,260	8,130
LONG-TERM DEBT (Note 10)		
First mortgage bonds	141,114	124,250
Bank and other notes	26,840	13,473
	167,954	137,723
CURRENT LIABILITIES		
Bank loan (Note 11)	450	257
Accounts payable	9,283	11,364
Income taxes accrued	1,098	—
Interest accrued	1,807	1,564
Dividends payable	2,116	1,703
Other current liabilities	816	524
	15,570	15,412
DEFERRED CREDITS		
Income taxes (Note 1 (c))	42,482	36,180
Other deferred credits (Note 12)	129	161
	42,611	36,341
COMMITMENTS (Note 15)		
	354,572	298,498

On behalf of the Board:

:obertson A.G. Archibald
Director

orm an integral part of these financial statements

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
For the Year Ended December 31

	Thousands of Dollars	
	1975	1974
	$	$
SOURCE OF FUNDS:		
Internal —		
Operating revenues and other income	102,996	82,456
Less charges requiring working capital (Note 13)	69,161	53,913
From operations	33,835	28,543
Deferred income taxes, prior years	123	759
Extraordinary item (Note 4)	—	111
Total internal	33,958	29,413
External —		
First mortgage bonds	28,500	20,000
9.4% preferred stock (Note 7)	17,500	—
8.6% preferred stock	—	10,000
Preference stock issued to minority shareholders	—	2,000
Short-term investments matured (Note 10 (b))	—	2,538
Bank and other notes	26,840	13,473
Employees' stock savings plan (Note 12)	1,136	1,128
Total external	73,976	49,139
Total source of funds	107,934	78,552
APPLICATION OF FUNDS:		
Redemption of first mortgage bonds (Note 10 (a))	11,636	—
Preferred shares purchased for cancellation (Note 7)	1,298	319
Repayment of bank and other notes	13,473	1,670
Dividends	8,132	6,505
Dividends to minority shareholders	576	471
Increase in materials inventory	9	1,497
Other	1,340	839
Increase in working capital	6,861	569
Total application of funds (other than construction)	43,325	11,870
Total funds provided for construction	64,609	66,682
FUNDS USED FOR CONSTRUCTION:		
New telephone plant added	70,926	71,389
Cost of removing old plant	1,026	916
Construction program expenditures	71,952	72,305
Less charges not requiring working capital		
— Interest, pensions and expenses credited to income	4,358	3,253
— Salvage	2,661	2,093
— Other	324	277
	7,343	5,623
Total funds used for construction	64,609	66,682

INCOME STATEMENT
For the Year Ended December 31

	Thousands of Dollars	
	1975	1974
	$	$
PERATING REVENUES		
Local service	**40,610**	33,538
Long distance service	**47,741**	37,854
Other	**2,919**	2,405
Uncollectible	*649*	*439*
	90,621	73,358
PERATING EXPENSES		
Maintenance	**14,120**	12,154
Depreciation (Note 1 (b))	**18,108**	14,446
Traffic	**8,998**	6,801
Commercial and marketing	**5,089**	4,480
Administrative	**6,422**	5,536
Pensions and other employee benefits	**3,791**	2,539
Other	**3,501**	2,730
Taxes other than income taxes	**2,455**	2,120
	62,484	50,806
	28,137	22,552
ther income (Note 2)	**2,249**	1,381
	30,386	23,933
TEREST		
Bond interest	**10,189**	7,417
Other (Note 3)	**1,488**	1,056
	11,677	8,473
	18,709	15,460
come taxes	**8,141**	7,275
COME BEFORE EXTRAORDINARY ITEM	**10,568**	8,185
xtraordinary item (Note 4)	**—**	111
ET INCOME FOR YEAR	**10,568**	8,296
arnings per common share:		
— before extraordinary item	**1.89**	1.72
— after extraordinary item	**1.89**	1.75

RETAINED EARNINGS STATEMENT
For the Year Ended December 31

	Thousands of Dollars	
	1975	1974
	$	$
RETAINED EARNINGS, beginning of year	**24,310**	22,783
ADDITIONS:		
Net income for year	**10,568**	8,296
Other (Note 9)	**78**	48
	10,646	8,344
DEDUCTIONS:		
Preferred dividends	**2,789**	1,274
Common dividends	**5,343**	5,231
Commission and expenses of issuing preferred stock	**516**	312
	8,648	6,817
RETAINED EARNINGS, end of year	**26,308**	24,310

D. S. Inkpen
Comptroller

FINANCIAL POSITION STATE
As at December 31

ASSETS

	Thousands of Dollars	
	1975	1974
	$	$
TELEPHONE PLANT (Note 1 (b))		
Depreciable telephone plant in service	**339,038**	297,664
Other telephone plant (Note 5)	**33,553**	19,515
	372,591	317,179
Less accumulated depreciation	**85,149**	73,706
	287,442	243,473
Materials inventory	**6,266**	6,265
	293,708	249,738
INVESTMENTS		
Equity in net assets of subsidiaries	**3,596**	3,249
Other investments (Note 6)	**834**	834
	4,430	4,083
CURRENT ASSETS		
Cash	**3,702**	877
Accounts receivable	**17,241**	12,261
Income taxes receivable	**—**	1,962
Prepayments	**1,271**	1,007
	22,214	16,107
DEFERRED CHARGES		
Unamortized long-term debt expenses	**2,097**	1,543
Other deferred charges	**850**	706
	2,947	2,249
	323,299	272,177

LIABILITIES

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COMMITM

On behalf of the Board:

Struan Robertson
Director

A. G. Arc
Director

The accompanying notes form an integral part of th

...STATEMENT
...ber 31

...ABILITIES AND SHAREHOLDERS' EQUITY

	Thousands of Dollars	
	1975	1974
	$	$
...HAREHOLDERS' EQUITY		
Common stock (Note 7)	**41,973**	41,101
Premium on common stock (Note 8)	**15,588**	15,375
Retained earnings	**26,308**	24,310
Total common equity	**83,869**	80,786
Preferred stock (Note 7)	**36,308**	20,106
	120,177	100,892
...NG-TERM DEBT (Note 10)		
First mortgage bonds	**127,864**	114,500
Bank and other notes	**22,300**	10,500
	150,164	125,000
...RRENT LIABILITIES		
Accounts payable	**8,526**	9,303
Income taxes accrued	**905**	—
Interest accrued	**1,561**	1,494
Dividends payable	**2,116**	1,703
Other current liabilities	**604**	360
	13,712	12,860
...FERRED CREDITS		
Income taxes (Note 1 (c))	**39,132**	33,269
Other deferred credits (Note 12)	**114**	156
	39,246	33,425
...MMITMENTS (Note 15)		
	323,299	272,177

...Board.

A G Archibald
Director

...art of these financial statements

STATEMENT OF CHANGES IN FINANCIAL POSITION
For the Year Ended December 31

	Thousands of Dollars	
	1975	1974
	$	$
SOURCE OF FUNDS:		
Internal —		
Operating revenues and other income	**92,870**	74,739
Less charges requiring working capital (Note 13)	**62,247**	48,994
From operations	**30,623**	25,745
Deferred income taxes, prior years	**123**	759
Extraordinary item (Note 4)	—	111
Total internal	**30,746**	26,615
External —		
First mortgage bonds	**25,000**	20,000
9.4% preferred stock (Note 7)	**17,500**	—
8.6% preferred stock	—	10,000
Short-term investments matured (Note 10 (b))	—	2,538
Bank and other notes	**22,300**	10,500
Employees' stock savings plan (Note 12)	**1,085**	1,083
Total external	**65,885**	44,121
Total source of funds	**96,631**	70,736
APPLICATION OF FUNDS:		
Investment in subsidiaries	**198**	—
Redemption of first mortgage bonds (Note 10(a))	**11,636**	—
Preferred shares purchased for cancellation (Note 7)	**1,298**	319
Repayment of bank and other notes	**10,500**	1,190
Dividends	**8,132**	6,505
Increase in materials inventory	—	1,402
Other	**1,179**	737
Increase in working capital	**5,255**	1,731
Total application of funds (other than construction)	**38,198**	11,884
Total funds provided for construction	**58,433**	58,852
FUNDS USED FOR CONSTRUCTION:		
New telephone plant added	**63,578**	63,063
Cost of removing old plant	**898**	826
Construction program expenditures	**64,476**	63,889
Less charges not requiring working capital		
— Interest, pensions and expenses credited to income	**4,027**	3,092
— Salvage	**1,715**	1,688
— Other	**301**	257
	6,043	5,037
Total funds used for construction	**58,433**	58,852

(7) Capital Stock — par value $10.00 per share

	1975 Shares	1974 Shares
Authorized:	**9,830,784**	9,980,200
Issued:		
Common — beginning of year	**4,110,085**	4,023,115
— issued during year for cash (1975, $1,086,000 1974, $1,084,000)	**87,285**	86,970
— end of year	**4,197,370**	4,110,085
Preferred — 7% cumulative, voting non-redeemable	**150,000**	150,000
— 7.10% cumulative, non-voting, redeemable*	**848,450**	870,950
— 8.6% cumulative, non-voting, redeemable**	**945,044**	989,625
— 9.4% cumulative, non-voting, redeemable***	**1,687,290**	—
	3,630,784	2,010,575
Total issued	**7,828,154**	6,120,660

By Orders of the Supreme Court of Nova Scotia to December 31, 1975, the reduction of the Company's share capital from $100,000,000 to $98,307,840 was confirmed. This reduction resulted from the purchase for cancellation by the Company to December 31, 1975 of 51,550 — 7.10%, 54,956 — 8.60% and 62,710 — 9.4% cumulative redeemable preferred shares.

*These shares are non-voting unless six quarterly dividends are in arrears. The Company must make all reasonable efforts to purchase for cancellation in the open market 22,500 Preferred Shares in each calendar year on a non-cumulative basis, at a price not exceeding $10.00 per share together with accrued and unpaid dividends and costs of purchase. During 1975, 22,500 shares were offered and purchased for cancellation (1974, 21,550).

**These shares are non-voting unless six quarterly dividends are in arrears. The Company must retire, either by redemption or by purchase for cancellation, 30,000 of these shares in each 12 month period ending May 28. The shares will be retired at a price not exceeding $10.00 per share, together with accrued and unpaid dividends and costs of purchase. During 1975, 44,581 shares were offered and purchased for cancellation (1974, 10,375).

***During the year 1,750,000 shares were issued for cash of $17,500,000. These shares are non-voting unless six quarterly dividends are in arrears. The Company must retire, as part of a cumulative mandatory sinking fund by April 15 of each year beginning with 1976, 70,000 shares at par value plus accrued and unpaid dividends and costs of purchase. During 1975, 62,710 shares were offered and purchased for cancellation.

(8) Premium on common stock —

	1975 $	1974 $
Beginning of year	**15,375,000**	15,161,000
On shares issued during year	**213,000**	214,000
End of year	**15,588,000**	15,375,000

(9) Retained earnings — other:
Included in Retained Earnings is $78,000 ($78,000 unconsolidated) of contributed surplus arising from the purchase for cancellation of preferred shares.

(10) Long-term debt

(a) First mortgage bonds —

Maritime Telegraph and Telephone Company, Limited

Series	Rate	Maturing	Principal
E	3 %	July 1, 1976	$ 2,000,000
O*	8¼%	June 15, 1977	6,000,000
J	5¼%	September 15, 1978	3,500,000
K	5½%	November 1, 1980	4,000,000
L	5½%	June 15, 1983	5,000,000
M	5½%	May 1, 1985	7,000,000
N	6½%	March 15, 1987	10,000,000
Q**	9¼%	June 1, 1990	1,364,000
R	8⅜%	May 1, 1991	12,000,000
T	8¾%	December 15, 1993	20,000,000
S	8⅝%	August 1, 1994	12,000,000
U	10¾%	November 1, 1995	20,000,000
V	11 %	June 15, 1996	25,000,000
			$127,864,000

The Island Telephone Company Limited

Series	Rate	Maturing	Principal
D	5½%	May 1, 1978	$ 500,000
E	5½%	October 2, 1981	500,000
F	5½%	June 15, 1983	750,000
G	7⅜%	February 1, 1988	1,000,000
H	8 %	December 15, 1991	3,000,000
I	9¼%	December 15, 1993	4,000,000
J***	11 %	January 15, 1995	3,500,000
			$ 13,250,000
Total first mortgage bonds (consolidated)			$141,114,000

*The holders of Series O Bonds had the right on any interest payment date from December 15, 1970 to December 15, 1975, both dates inclusive, to exchange for 8¼% Series P First Mortgage Bonds maturing June 15, 1990. At December 15, 1975 none of the holders of Series O Bonds elected to exchange for Series P First Mortgage Bonds.

**The holders of Series Q Bonds had the right to require the Company to repay the principal amount at par on June 1, 1975. At that date $8,636,000 principal amount of Series Q Bonds were repaid.

***The holders of Series J Bonds of The Island Telephone Company Limited have the right to require The Island Telephone Company Limited to repay the principal amount at par on January 15, 1985.

During the year the Company issued $25,000,000, 11% First Mortgage Bonds, Series V, maturing June 15, 1996. The proceeds from the issue were used to retire $3,000,000, 3¾% Series I Bonds which matured May 1, 1975 and to repay $8,636,000 principal amount of Series Q Bonds. The balance of the proceeds of the issue were added to the general funds of the Company.

(b) Bank and other notes

Maritime Telegraph and Telephone Company, Limited — Bank demand loan at prime rate	$22,300,000
The Island Telephone Company Limited — Bank demand loan at prime rate	4,540,000
Total bank and other notes (consolidated)	$26,840,000

In order to permit the Company to time its new issues of debt or capital stock most advantageously the Company maintains a

substantial bank line of credit and from time to time sells short-term promissory notes. Such short-term credit is replaced in the normal course by longer term financing and currently maturing debt issues are likewise normally refinanced. For this reason the Company does not classify these items as current liabilities.

Likewise, the Company does not classify as current assets excess funds received through financing and temporarily invested in short-term investments.

(11) Bank loan — Maritime Computers Limited bank demand loan at prime rate.

(12) Other deferred credits —
Includes Employees' Stock Savings Plans as follows:

	Maritime Telegraph and Telephone Company, Limited	The Island Telephone Company Limited	Consolidated
As at December 31, 1973	$ 10,000	$ —	$ 10,000
Add 1974 contributions, including interest	1,083,000	45,000	1,128,000
	1,093,000	45,000	1,138,000
Less common stock issued in 1974 to employees under the Plans	1,084,000	45,000	1,129,000
As at December 31, 1974	9,000	—	9,000
Add 1975 contributions, including interest	1,085,000	51,000	1,136,000
	1,094,000	51,000	1,145,000
Less common stock issued in 1975 to employees under the Plans	1,086,000	51,000	1,137,000
As at December 31, 1975	$ 8,000	$ —	$ 8,000

Generally, shares are issued in December of each year after the completion of twelve months of contributions. Effective July 1, 1970 the purchase price is equivalent to 80% of the average market price of the stock.

(13) Charges requiring working capital —

	1975	1974
	$	$
(a) **Consolidated**		
Operating expenses, interest and taxes	**91,682,000**	73,697,000
Less charges not requiring working capital		
— Depreciation	**20,275,000**	16,266,000
— Deferred income taxes	**6,179,000**	6,405,000
— Other	**425,000**	366,000
	26,879,000	23,037,000
	64,803,000	50,660,000
Add credits not producing working capital		
— Interest, pensions and expenses charged to construction	**4,358,000**	3,253,000
	69,161,000	53,913,000
(b) **Unconsolidated**		
Operating expenses, interest and taxes	**82,302,000**	66,554,000
Less charges not requiring working capital		
— Depreciation	**18,108,000**	14,446,000
— Deferred income taxes	**5,740,000**	5,896,000
— Other	**383,000**	326,000
	24,231,000	20,668,000
	58,071,000	45,886,000
Add credits not producing working capital		
— Interest, pensions and expenses charged to construction	**4,027,000**	3,092,000
— Other	**149,000**	16,000
	62,247,000	48,994,000

(14) Pension Fund —
Pension Fund Obligations are accounted for and paid over the estimated future working lifetime of employees of the Company. The contribution to the pension fund for the year ended December 31, 1975 amounted to $4,252,000 (1974, $2,761,000) on a consolidated basis and $3,946,000 (1974, $2,571,000) on an unconsolidated basis. Based on earnings and service to December 31, 1975, actuarial reviews show that all invested benefits are fully funded.

(15) Commitments —

(a) Leases:

(1) The Company leases a substantial number of circuits in the ordinary course of its business for which it pays annual rents of approximately $570,000. The most significant of these leases expires in 1978.

(2) The Company has contracted to lease computer equipment at an annual rental of approximately $470,000, the contract expiring in 1979.

(3) The Company has several agreements with regard to the Telesat Communications Satellite, Anik I with respect to circuit leases through the Trans-Canada Telephone System. These agreements call for annual payments of approximately $120,000 and expire in 1978.

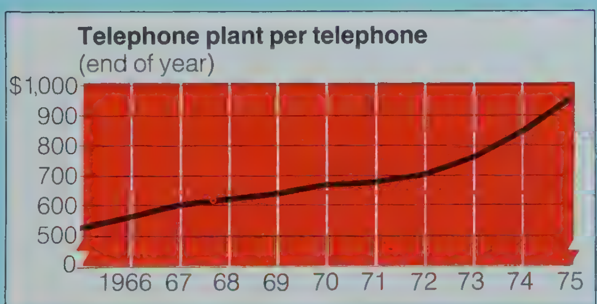
(4) The Company leases space in several buildings in the ordinary course of its business for which it pays annual rents of approximately $610,000. The most significant of these leases expires in 1977.

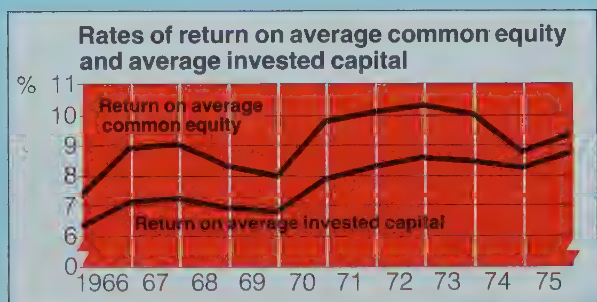
(b) The Company has contracted to have Trizec Equities Limited develop a multiphase office complex on land leased to Trizec by the Company. The Company will be a major tenant in this development and has made a commitment to lease 163,000 square feet of space upon completion of the first phase which is anticipated to be in early 1977. The Company has the option to purchase the development between the 35th and 45th year following completion of the first phase.

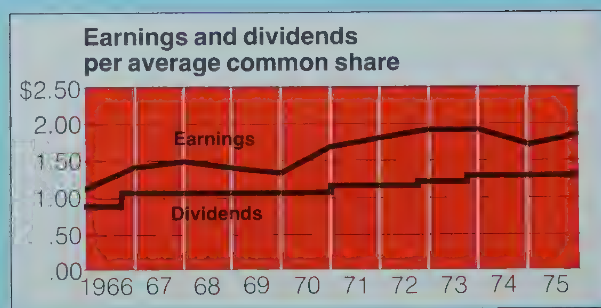
(16) Comparative figures —
Certain of the 1974 figures have been restated so as to conform the presentation with that followed in 1975.

THE YEARS IN REVIEW (Unconsolidated)

	1975	1974	1973	1972	1971	1970	1969	1968	1967	1966
Financial Position at December 31 (in thousands)										
Telephone plant	**$378,857**	$323,444	$267,627	$230,123	$205,984	$190,400	$174,552	$160,820	$148,361	$129,439
Accumulated depreciation	**85,149**	73,706	66,462	59,465	51,758	46,892	42,767	38,490	36,269	33,100
Investments	**4,430**	4,083	6,608	6,379	3,588	3,548	2,772	2,722	5,811	2,612
Current assets	**22,214**	16,107	11,449	8,875	9,921	7,548	7,004	6,893	6,834	4,831
Deferred charges	**2,947**	2,249	1,635	1,433	1,091	953	705	519	1,034	764
Shareholders' Equity	**120,177**	100,892	88,600	84,541	72,104	68,957	65,942	64,295	62,726	53,650
Long-term debt	**150,164**	125,000	95,690	74,700	72,150	65,650	55,650	51,000	46,000	36,200
Current liabilities	**13,712**	12,860	9,933	7,113	5,221	5,788	6,795	4,584	5,867	4,408
Deferred credits	**39,246**	33,425	26,634	20,991	19,352	15,162	13,879	12,585	11,178	10,288
Income (in thousands)										
Operating revenues and extraordinary item	**$ 90,621**	$ 73,469	$ 62,153	$ 54,892	$ 48,325	$ 43,986	$ 38,390	$ 35,208	$ 32,334	$ 28,571
Operating expenses and other taxes	**62,484**	50,806	41,180	35,845	30,877	27,674	25,231	22,485	20,720	18,639
Other income	**2,249**	1,381	995	810	675	567	314	435	402	302
Interest	**11,677**	8,473	6,024	5,076	4,574	3,758	2,958	2,538	2,262	1,759
Income taxes	**8,141**	7,275	7,530	6,650	6,401	6,514	5,282	5,295	4,774	4,107
Net income for year	**10,568**	8,296	8,414	8,131	7,148	6,607	5,233	5,325	4,980	4,368
Statistics — at December 31										
Telephone plant per telephone	**$ 965**	$ 854	$ 766	$ 711	$ 692	$ 682	$ 648	$ 627	$ 609	$ 570
Equity per common share	**$ 19.98**	$ 19.66	$ 19.43	$ 18.84	$ 18.19	$ 17.64	$ 17.10	$ 16.88	$ 16.66	$ 16.37
Embedded debt cost	**8.8%**	8.2%	7.6%	7.3%	6.8%	6.1%	5.4%	5.1%	5.1%	4.6%
Long-term debt % total invested capital	**55.6%**	55.3%	51.9%	46.9%	50.0%	48.8%	45.8%	44.2%	42.3%	40.3%
Employees	**3,526**	3,466	3,152	2,877	2,649	2,529	2,469	2,474	2,632	2,531
Telephones in service	**392,441**	378,823	349,590	323,762	297,877	279,268	269,211	256,388	243,502	227,270
Dial telephones	**98.6%**	98.1%	96.0%	94.9%	92.1%	90.8%	90.5%	90.1%	87.9%	87.9%
Statistics — for year										
Earnings per common share	**$ 1.89**	$ 1.75	$ 1.94	$ 1.94	$ 1.83	$ 1.71	$ 1.37	$ 1.41	$ 1.51	$ 1.43
Dividends per common share	**$ 1.30**	$ 1.30	$ 1.26	$ 1.21	$ 1.20	$ 1.10	$ 1.10	$ 1.10	$ 1.10	$ .99
Times bond interest earned — before taxes	**3.0**	3.2	4.1	4.1	4.3	5.1	5.2	5.7	5.5	6.2
Times bond interest earned — after taxes	**2.2**	2.3	2.7	2.7	2.8	3.1	3.2	3.4	3.3	3.7
Return on average invested capital	**8.9%**	8.4%	8.6%	8.7%	8.4%	8.0%	6.9%	7.0%	7.3%	7.2%
Return on rate base	**7.4%**	6.7%	7.4%	7.6%	7.4%	7.3%	6.2%	6.2%	6.4%	6.2%
Return on average common equity	**9.5%**	8.9%	10.1%	10.4%	10.2%	9.9%	8.1%	8.4%	9.1%	9.0%
Construction program expenditures (in thousands)	**$ 64,476**	$ 63,889	$ 42,619	$ 27,912	$ 21,518	$ 22,606	$ 17,748	$ 19,166	$ 21,851	$ 17,956
Average common shares (in thousands)	**4,110**	4,024	3,961	3,907	3,854	3,796	3,743	3,698	3,232	2,976
Salaries and wages (in thousands)	**$ 35,263**	$ 30,701	$ 24,651	$ 20,968	$ 17,724	$ 15,684	$ 14,001	$ 12,851	$ 11,852	$ 10,430
Average daily calls (in thousands)	**2,536**	2,265	1,996	1,799	1,741	1,672	1,471	1,393	1,308	1,236
Average daily toll messages (in thousands)	**82**	73	63	55	48	42	38	36	33	31







Maritime Telegraph & Telephone Company Limited

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Executive Vice-President (Operations)
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Executive Assistant (Trans-Canada)

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General Marketing Manager

Harry W. Dacey
General Personnel Manager

Printed in Nova Scotia, Canada

MARITIME TELEGRAPH & TELEPHONE COMPANY LIMITED

To the Shareholders:

Long distance calling continued to show strong growth during the first half of this year, an increase of 12.9% over the same period a year ago; volume during the period totalled 14.3 million, highest to date in the Company's history. Gain in installed telephones for the same period was 7,943, and the total of telephones in service, 386,766, was an increase of 5.8% over a year ago.

In the same period, the Company experienced a 26% gain in station and terminal data equipment in service, including VuCom 1, Datacom 100 and 300 and Faxcom devices. Data channel facilities of special design, including Dataroute, Multicom 1 and 11, and similar high-speed, "dial up" combination voice-data channels, showed a gain of 65% in service.

Construction program expenditures for the period to provide for growth and expansion of the Company's telecommunications network and related facilities were $38.2 million, approximately $9 million more than a year ago. While the rate of return on average invested capital for the period rose to 8.71%, compared to 8.34% a year ago, return on average common equity declined to 9.08% from 9.20% for the same period in 1974. Earnings per average common share for the six months were 90 cents, compared to 92 cents a year ago.

In order to improve these levels of earnings, the Company applied to the Board of Commissioners of Public Utilities of Nova Scotia in July to increase rates charged for a wide range of services. Briefly, the Company seeks to increase most basic home phone charges by $1.50 monthly, most business phone charges between $2.25 and $5 monthly, depending on the size of the exchange service, and long distance rates between two and ten cents a minute, depending on the distance called. The Company estimates that the rates if approved would increase projected revenues by 14.3%.

The hearing before the utilities board will take place in early September and the Company has requested that new rates if approved be implemented November 1.

August 18, 1975
Halifax, N.S.

Struan Robertson

Struan Robertson
President

SIX MONTH GROWTH
(compared to same period last year)

LONG DISTANCE CALLS
14.3 million — ***up 12.9%***

SALARIES AND WAGES
16.6 million — ***up 16.5%***

TELEPHONES IN SERVICE — JUNE 30
386,766 — ***up 5.8%***

EMPLOYEES — JUNE 30
3,654 — ***up 4.1%***

File

MARITIME TELEGRAPH & TELEPHONE COMPANY LIMITED

Six Month Report

TO JUNE 30th 1975

MARITIME TEL & TEL

Consolidated Financial Position Statement (Condensed)

	(Thousands of Dollars) As at June 30 1975* $	1974* $
Telephone plant	**395,784**	323,253
Accumulated depreciation	**85,205**	76,619
Investments	**906**	906
Current assets	**16,213**	12,801
Deferred charges	**4,003**	2,631
Shareholders' equity — Preferred	**37,266**	20,377
— Common	**81,834**	79,285
Minority interest in subsidiary companies		
— Preference shares	**5,050**	5,050
— Common equity	**3,153**	3,069
Long term debt — First mortgage bonds	**141,114**	104,250
— Bank and other notes	**7,520**	5,660
Current liabilities	**14,172**	11,864
Deferred credits	**41,592**	33,417

Consolidated Interim Income Statement

	(Thousands of Dollars) Three Months Ended June 30 1975* $	1974* $	(Thousands of Dollars) Six Months Ended June 30 1975* $	1974* $
Operating revenues	**24,264**	19,656	**47,162**	38,028
Operating expenses and other taxes (Note 1)	**16,613**	13,719	**32,544**	26,468
	7,651	5,937	**14,618**	11,560
Other income	**579**	319	**981**	611
Income before interest and income taxes	**8,230**	6,256	**15,599**	12,171
Interest	**3,070**	2,254	**6,137**	4,346
	5,160	4,002	**9,462**	7,825
Income taxes (Note 2)	**2,259**	1,806	**4,201**	3,545
Income before minority interest and extraordinary item	**2,901**	2,196	**5,261**	4,280
Minority interest	**191**	141	**348**	246
Income before extraordinary item	**2,710**	2,055	**4,913**	4,034
Extraordinary items (Note 3)	**—**	13	**—**	117
Net income for period	**2,710**	2,068	**4,913**	4,151
Earnings per average common share before extraordinary items	**$ .46**	$ .44	**$ .90**	$ .89
Earnings per average common share after extraordinary items	**$ .46**	$ .45	**$ .90**	$ .92
Average number of common shares outstanding	**4,110,403**	4,023,161	**4,110,244**	4,023,161
(Note 1) Includes depreciation of	**$ 4,672**	$ 3,984	**$ 9,190**	$ 7,760
(Note 2) Consists of: Income taxes payable	**$ 468**	$ 595	**$ 629**	$ 1,123
Income taxes deferred	**$ 1,791**	$ 1,211	**$ 3,572**	$ 2,422
(Note 3) Interest on income tax re-assessments				

Consolidated Statement of Changes in Financial Position

	(Thousands of Dollars) Six Months Ended June 30 1975* $	1974* $
SOURCE OF FUNDS:		
Internal —		
Operating revenues and other income	**48,144**	38,655
Less charges requiring working capital	**32,361**	25,592
From operations	**15,783**	13,063
Deferred income taxes, prior years	**—**	766
Total internal	**15,783**	13,829
External —		
Preferred stock	**17,500**	10,000
Preference stock issued to minority shareholders	**—**	2,000
First mortgage bonds	**28,500**	—
Short term investments matured	**—**	2,538
Bank and other notes	**7,520**	5,660
Employees' stock savings plan	**563**	568
Decrease in working capital	**—**	398
Total external	**54,083**	21,164
Total source of funds	**69.866**	34,993
APPLICATION OF FUNDS:		
Redemption of first mortgage bonds	**11,636**	—
Redemption of preferred stock	**340**	48
Repayment of bank and other notes	**13,473**	1,670
Dividends	**3,893**	3,062
Dividends to minority shareholders	**275**	187
Increase in materials inventory	**1,080**	631
Other	**218**	19
Increase in working capital	**137**	—
Total application of funds (other than construction)	**31,052**	5,617
Total funds provided for construction	**38,814**	29,376
FUNDS USED FOR CONSTRUCTION:		
New telephone plant added	**41,903**	31,838
Cost of removing old plant	**569**	410
Construction program expenditures	**42,472**	32,248
Less charges not requiring working capital		
— Interest, pensions, and expenses credited to income	**2,294**	1,588
— Salvage	**1,210**	1,152
— Other	**154**	132
	3,658	2,872
Total funds used for construction	**38,814**	29,376